EASTERN PROVINCIAL AIRWAYS

annual report 1978

**EASTERN PROVINCIAL AIRWAYS LIMITED
and Subsidiary Companies

Officers

Keith Alfred Miller
Chairman of the Board

Arthur James Lewington
Deputy Chairman of the Board

Harold Raymond Steele
President and Chief Executive Officer

William Farrell Gaudet
Vice-President Marketing

Bryan Goodwin Jones
Vice-President Engineering & Maintenance

Marshall Bruce Jones
Vice-President Flight Operations

Roy Preston Rideout
Assistant to the President

Harold Lewis Wareham
Vice-President Finance

William James Whatley
Secretary

Head Office

Gander International Airport
Gander, Newfoundland

Bankers

The Royal Bank of Canada, Gander, Nfld.
The Mercantile Bank of Canada, Montreal, P.Q.

Auditors

Peat, Marwick, Mitchell & Co.
Chartered Accountants
St. John's, Newfoundland

Legal Counsel

Herridge Tolmie
Ottawa, Ontario
Johnston, Heenan & Blaikie
Montreal, P.Q.
Aylward, Crosbie & Morris
St. John's, Newfoundland

Transfer Agent & Registrar

The Royal Trust Company
St. John's, Halifax, Montreal,
Toronto, Winnipeg, Regina, Calgary

Stock Listing

The Toronto Stock Exchange
The Montreal Stock Exchange

Directors

Keith Alfred Miller
Chairman of the Board
Eastern Provincial Airways

Arthur James Lewington
Deputy Chairman of the Board
Eastern Provincial Airways

**Harold Raymond Steele
President & Chief Executive Officer
Eastern Provincial Airways

Walter John Cox
President, The Pure Milk Company
Charlottetown, P.E.I.

John M. Coyne
Partner, Herridge, Tolmie
Ottawa, Ontario

Andrew Chesley Crosbie
President & Chief Executive Officer
Newfoundland Engineering and Construction Co. Ltd
St. John's, Newfoundland

William E. Fearn
Deputy Minister of Finance
Province of Newfoundland & Labrador

*William Farrell Gaudet
Vice-President Marketing
Eastern Provincial Airways

William Henry Harris
Vice-President, Government Relations (Retired)
Eastern Provincial Airways

J. Claude Hebert
Consultant
Montreal, P.Q.

*Bryan Goodwin Jones
Vice-President - Engineering & Maintenance
Eastern Provincial Airways

*Marshall Bruce Jones
Vice-President Flight Operations
Eastern Provincial Airways

Richard Henry Oland
Officer, Moosehead Breweries Limited
Saint John, N.B.

Charles Arnold Patterson
President CFDR Radio Station
Dartmouth, N.S.

Alexander J. Roche
Deputy Minister of Industrial Development
Province of Newfoundland & Labrador

*Harold Lewis Wareham
Vice-President, Finance
Eastern Provincial Airways

*Members of the Executive Committee
**Chairman of the Executive Committee

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EASTERN PROVINCIAL AIRWAYS LIMITED
and Subsidiary Companies

Comparative Highlights

	1978	1977
Earnings		
Revenues - Gross	$56,534,000	46,361,000
Net Income (Loss)	2,874,000	(1,215,000)
Earnings (Loss) per Common Share - Basic	2.26	(1.12)
Average Common Shares Outstanding	1,213,612	1,202,595
Financial Position		
Working Capital (Working Capital Deficiency)	1,497,000	(656,000)
Property and Equipment - Net	24,483,000	28,418,000
Long-Term Debt	15,947,000	20,883,000
Shareholders' Equity	6,262,000	4,862,000
Equity per Common Share	3.89	2.57
Operating Statistics		
Passengers Carried	780,000	669,000
Cargo Ton Miles	4,875,000	3,871,000
Revenue Ton Miles	34,194,000	29,580,000
Capacity Ton Miles	56,346,000	53,198,000
Revenue Weight Load Factor	60.7	55.6%

Directors' Report to the Shareholders

It is an honour, as your new President and Chief Executive Officer, to present this report on behalf of the Board of Directors.

At a Special Meeting of the Board of Directors held on November 21, 1978, Mr. K. A. Miller, your President at that time, was appointed Chairman of the Board. Mr. A. C. Crosbie resigned as Chairman but consented to remain with the Company as a Director. The Crosbie name has been associated with EPA since its beginning and we are delighted to have him continue.

Operating results for the year ended December 31, 1978 showed a marked improvement over 1977 and the immediate preceding years. Higher load factors on scheduled services and improved utilization of Boeing 737 aircraft were the major contributors to the improvement in operations.

Net income for the year was $2,874,000 or $2.26 per share compared with a net loss of $1,215,000 or $1.12 per share in 1977. A gain of $3,486,000 before taxes which was realized in 1978 from the sale of a Boeing 737 aircraft increased the after tax earnings per share by $1.91.

Revenue from all sources amounted to $56,534,000 in 1978 compared with $46,361,000 in 1977, an increase of 21.9%. Revenue from scheduled services, which accounts for more than 80% of the Company's operations, increased by 20.2%. Charter revenue increased by 19.7% and revenue from the Company's hotel operations increased by 22.9%.

Of major importance was the improvement in scheduled operations. Passenger and cargo revenues increased by 19.4% and 25.4% respectively over 1977. Overall, scheduled services generated 34,194,000 revenue ton miles in 1978, an increase of 16.3% over the previous year. This increase was achieved although the capacity offered only increased by 7.1%. As a result the revenue ton mile load factor for the year was 60.7% compared to a load factor of 55.6% in 1977.

Charter revenue amounted to $5,599,000 in 1978, an increase of 19.7% over 1977. Revenue generated by the Company's tour operator, Caramac Tours, amounted to $1,433,000 in 1978, an increase of 34.7% over 1977. Although charter operations continue to make a contribution to overall operations, Caramac Tours did not reach a profitable position in 1978.

Revenue from hotel operations increased by 22.9% to $2,146,000 during the year. This increase results from improved efficiencies at the Atlantic Inn at Dartmouth, Nova Scotia, and the extension to the Glynmill Inn at Corner Brook, Newfoundland. After elimination of inter-company charges, the hotel operation showed a small profit for the year.

To offset continued increases in the cost of labour, fuel, user charges and other expenses, the Company applied for and received effective April 1, 1978 a passenger fare increase averaging 3.8% and a cargo increase of 5%. In an effort to improve the viability of the Airline a Boeing 737 was sold for $8,000,000 U.S. and a smaller HS-748 turbo-prop aircraft was purchased for $1,100,000 U.S.

As a result of improved operations and the sale of the Boeing 737 aircraft, working capital was greatly strengthened. Certain loans were repaid and dividends in arrears on the preferred shares were paid. Additionally, the Company paid a special dividend of $1,139,000 out of capital surplus on hand to its common shareholders. At year-end working capital amounted to $1,497,000 compared with a working capital deficiency of $656,000 at December 31, 1977.

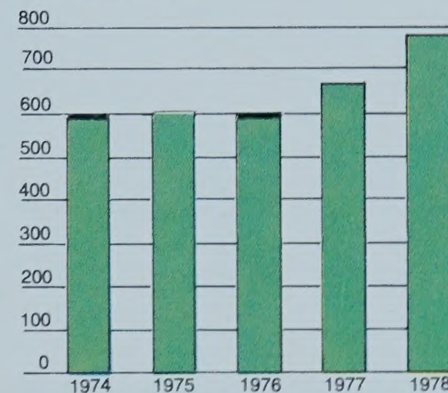
Collective agreements were successfully renewed with all employee associations during the year. The major employee groups are represented by national unions, and working conditions and wages paid are at parity with those of the other Canadian air carriers. At year-end the number of employees was 886 compared with 830 in 1977. This increase results mainly from increased traffic volumes and staffing of ticket counters at two additional locations.

The Company continues to be eligible for federal subsidies on certain of its routes. For the past several years a ceiling restriction of $1,700,000 has been placed on the subsidy level despite losses greatly in excess of that amount. In 1978 several routes previously eligible for subsidy were ruled ineligible by the Air Transport Committee. A claim for subsidy on the remaining eligible routes has been submitted for 1978 amounting to $2,245,000 although only $1,700,000 has been recorded because of the ceiling restriction.

The Company has had under consideration for some time a proposal to purchase Dash 7 aircraft for operation on the short-haul routes in the Maritime Provinces. Part of these considerations was the assurance of financing assistance and/or subsidy guarantees. At this moment it is difficult to be optimistic that this will be achieved or that the present level of subsidies will be continued beyond 1979. The Company is therefore reassessing its role in the very shorthaul low density services in the Maritime Region. As a result it appears that some of these services should be abandoned or performed by another operator and that the HS-748 turbo-prop aircraft be sold.

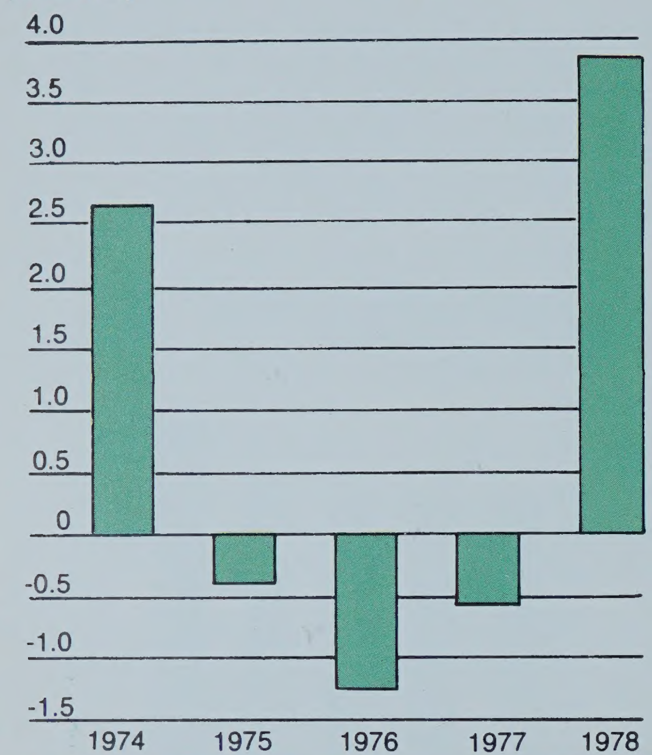
Of even greater importance is the assessment of the Airline's role as the regional airline for Atlantic Canada. It is becoming increasingly evident that if the Airline is

PASSENGERS CARRIED
SCHEDULED SERVICES
(THOUSANDS)



REVENUE
(MILLIONS)

FUNDS GENERATED FROM OPERATIONS
(MILLIONS)



to continue to give the high standard of service required it must be an economically viable operation. In order to attain that position the Airline must have access to better routes. Only in this way can it achieve major improvements in aircraft utilization, employee productivity and an enlarged revenue base. The major impetus of your management's efforts in the immediate future will be directed to this end.

The outlook for the Company's operation in 1979 is somewhat clouded at the moment. Although the economic climate for Atlantic Canada is improving, the Airline is faced with rising costs for labour, fuel, user charges and normal operating expenses. The delay in receiving a fare increase requested to be effective in January, 1979 is a major disappointment. Additionally, higher interest rates and the devalued Canadian dollar will all have a detrimental effect on profits. Continued improvements in the hotel operations are anticipated and maximum utilization of the flight training facilities appears to be a certainty. Every effort is being made to improve revenues and operating efficiencies in all areas of the Company so that another profitable year will result.

The Board acknowledges with gratitude the efforts made by all employees during the year and appreciates the role they play in contributing to the high esteem in which the Company is held by the travelling public in Atlantic Canada.

On behalf of the Board of Directors.

H. R. Steele,
President & Chief Executive Officer.


BOEING 737
EASTERN PROVINCIAL AIRWAYS
C-GEPA

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1978
with comparative figures for 1977
(in thousands of dollars)

	1978	1977
Revenues		
Scheduled operations	$45,026	37,462
Government subsidies (Note 6)	1,700	1,700
Charter and other	9,808	7,199
	56,534	46,361
Expenses		
Operating	50,786	44,642
Depreciation and amortization	2,278	2,049
	53,064	46,691
Income (loss) from operations	3,470	(330)
Other income (Note 7)	3,594	82
	7,064	(248)
Interest and debt expense		
Long-term debt	2,113	1,687
Other	158	238
	2,271	1,925
Income (loss) before deferred income taxes	4,793	(2,173)
Deferred income taxes	1,919	958
Net income (loss) for the year	$ 2,874	(1,215)
Basic earnings (loss) per common share (Note 7)	$ 2.26	(1.12)

See accompanying notes to consolidated financial statements

EASTERN PROVINCIAL AIRWAYS LIMITED

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1978
with comparative figures for 1977
(in thousands of dollars)

	1978	1977
Funds provided by		
Operations		
Net income for the year	$ 2,874	-
Items not involving funds	949	-
Funds provided by operations	3,823	-
Sale of equipment	8,790	47
Long-term borrowings	1,506	7,880
Investments	63	61
Issue of common shares	51	-
Government grants	-	868
Total funds provided	14,233	8,856
Funds applied to		
Operations		
Net loss for the year	-	1,215
Items not involving funds	-	(707)
Funds applied to operations	-	508
Property and equipment	4,112	4,600
Long-term debt	6,442	3,561
Dividends	1,424	-
Deferred charges	-	58
Purchase for cancellation of Preferred shares (Note 4)	102	102
Total funds applied	12,080	8,829
Increase in working capital	2,153	27
Working capital deficiency as at beginning of year	656	683
Working capital (deficiency) as at end of year	$ 1,497	(656)

See accompanying notes to consolidated financial statements

Assets

	1978	1977
Current assets:		
Cash and term deposits	$ 1,539	143
Short-term investments, at cost (market value $175,900; 1977 - $280,000)	193	298
Receivables (Note 2)	6,993	5,303
Materials, supplies and parts, at the lower of cost and replacement cost	2,089	1,841
Prepaid expenses	521	416
Total current assets	11,335	8,001
Investments, at cost	731	794
Property and equipment, at cost		
Flight equipment	16,862	21,579
Buildings and ground facilities	15,597	13,458
	32,459	35,037
Less accumulated depreciation and provision for overhaul of owned aircraft engines	7,976	6,619
Net property and equipment	24,483	28,418
Deferred charges, at cost less amortization	633	851
Goodwill, at cost	1,856	1,856
	$39,038	39,920

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

DECEMBER 31, 1978
with comparative figures for 1977
(in thousands of dollars)

Liabilities and Shareholders' Equity

	1978	1977
Current liabilities:		
Bank indebtedness (Note 2)	$ 1,693	1,719
Accounts payable and accrued liabilities	4,693	3,605
Current portion of long-term debt (Note 3)	1,454	1,777
Deferred revenue	1,998	1,556
Total current liabilities	9,838	8,657
Long-term debt (Note 3)	15,947	20,883
Provision for overhaul of leased aircraft engines	1,077	895
Government grants less accumulated amortization of $692,000 (1977 - $277,000)	4,208	4,623
Deferred income taxes	1,706	-
Shareholders' equity (Note 4)		
Capital stock	3,177	3,227
Contributed surplus	37	37
Retained earnings	3,048	1,598
Total shareholders' equity	6,262	4,862
Commitments and contingent liabilities (Note 5)		
	$39,038	39,920

ON BEHALF OF THE BOARD:

H R Steele .... DIRECTOR

Hareham .... DIRECTOR

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1978
with comparative figures for 1977
(in thousands of dollars)

	1978	1977
Retained earnings as at beginning of year	$1,598	2,813
Net income (loss) for the year	2,874	(1,215)
	4,472	1,598
Dividends		
Preferred shares - Series A	77	-
- Series B	208	-
Common shares	1,139	-
	1,424	-
Retained earnings as at end of year	$3,048	1,598

See accompanying notes to consolidated financial statements

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Eastern Provincial Airways Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co

Chartered Accountants

St. John's, Canada
March 1, 1979

Notes to Consolidated Financial Statements
DECEMBER 31, 1978

1. Summary of Significant Accounting Policies

(a) Basis of consolidation
The consolidated financial statements include the accounts of Eastern Provincial Airways Limited and its wholly-owned subsidiary companies, Maritime Central Airways Limited, Eastern Provincial Airways (1963) Limited, and Atlantic Inns Limited, as well as its 75% owned subsidiary, Caramac Travel Consultants Limited.

Goodwill, representing the excess of cost of investment in shares of subsidiary over equity in net assets at date of acquisition amounting to $1,856,000, arose upon the acquisition of Maritime Central Airways Limited in 1963.

(b) Depreciation
Depreciation on property and equipment is provided on a straight-line basis from the date assets are placed in service at rates which are related to the estimated useful lives of the assets, as follows:

	Useful Life	Residual Value
Jet aircraft and spare parts	14 years	15%
Propeller aircraft and spare parts	10 years	10%
Buildings	20 years	-
Ground facilities	5 years	-

(c) Capitalization of interest
Interest is capitalized on expenditures related to the acquisition of property and equipment before such assets are placed in service.

(d) Overhaul provision
Provision for major overhauls of owned and leased aircraft engines which are performed by outside agencies is made based on aircraft flying time at rates per hour computed in relation to the estimated costs of the overhauls.

(e) Amortization
Deferred charges are amortized on a straight-line basis over five years with the exception of deferred financing expenses which are amortized over the terms of the related financing.

(f) Government grants
Government grants towards acquisition of property and equipment are recorded as deferred credits and amortized on the same basis as the related asset is depreciated.

(g) Revenue recognition
The recognition of revenue is deferred until the related services are rendered. Prepayments of such services as at the year end are included in deferred revenue.

(h) Foreign currencies
Current balances receivable and payable in foreign currencies have been translated to Canadian dollars at the rate of exchange prevailing as at the balance sheet date. Non-current balances in foreign currencies have been translated at historical rates of exchange. Gains and losses on translation of foreign currency are included in the statement of income.

(i) Earnings per Common Share
Basic earnings per share information has been computed using the weighted average number of Common shares outstanding during the year.

(j) Approval of financial statements
These financial statements have been prepared taking into consideration events occurring between December 31, 1978 and March 1, 1979, the date of their approval by the Executive Committee of the Board of Directors.

2. Receivables

	1978	1977
	(in thousands of dollars)	
Trade receivables	$5,325	4,307
Government subsidies	1,300	450
Other receivables	368	546
	$6,993	5,303

Receivables are assigned as security for bank indebtedness.

3. Long-Term Debt

	1978	1977
	(in thousands of dollars)	
Bank term loans:		
At prime repayable $600,000 per year to 1981	$ 6,000	6,000
6% repayable in 10 equal semi-annual instalments commencing July 10, 1980, secured by a chattel mortgage on an aircraft (U.S. $2,591,000)	2,562	2,562

At prime plus $2\frac{1}{8}\%$, repayable in semi-annual instalments of $390,000 to December 31, 1979, secured by a chattel mortgage on an aircraft	780	1,560
Other	-	5,528
Total bank term loans	9,342	15,650
$6\frac{1}{2}\%$ sinking fund debentures due March 15, 1991, less sinking fund investments of $4,348,000 (1977 - $3,999,000)	1,652	2,001
11% loan, repayable in monthly instalments of $43,000, including interest, to 1997, secured by a first mortgage on a hangar building	4,157	4,225
	15,151	21,876
Current obligations to be financed from long-term borrowings	2,250	744
Other	-	40
	17,401	22,660
Less portion due within one year included in current liabilities	1,454	1,777
Long-term debt	$15,947	20,883

The $6,000,000 bank loan is secured by an unconditional guarantee of the Province of Newfoundland expiring on June 30, 1979. The Province has indicated its intention to extend this guarantee to December 31, 1981 at which time the Company will refinance the loan.

The sinking fund debentures are unconditionally guaranteed by the Province of Newfoundland; this guarantee being secured by a first and specific mortgage on certain assets and a first floating charge on certain other assets. It is the intention that the sinking fund investments together with future earnings of the fund will be sufficient to retire the principal amount of the sinking fund debentures at maturity.

Current obligations to be financed from long-term borrowings are related to a hotel extension that was completed in 1978. As at December 31, 1978 bank term loan financing had been arranged, but had not been drawn down. The term loan, when drawn down, will be repayable over 20 years in monthly installments of $27,000 including interest at prime plus $2\frac{1}{2}\%$ and will be secured by a $2,500,000 fixed and floating charge debenture on certain assets.

In connection with certain loan and lease agreements the Company and its subsidiaries have agreed to among other things:

(a) Maintain a minimum working capital, as defined, of $1,000,000;

(b) Maintain a minimum net worth, as defined, of $5,000,000;

(c) Not declare or pay dividends in any one year in excess of 30% of its net earnings for the previous year;

(d) Not make capital expenditures in excess of $500,000 in any one year; and,

(e) Not incur, assume or guarantee any additional indebtedness; except for current purposes not exceeding $2,000,000.

Maturities on long-term debt other than the $6\frac{1}{2}\%$ sinking fund debentures for the five years ending December 31, 1979 through 1983 amount to $1,454,000, $942,000, $1,210,000, $620,000 and $631,000 respectively. Maturities on the $6,000,000 bank term loan after 1981 are not included in the foregoing principal repayments.

4. Shareholders' Equity

	1978	1977
	(in thousands of dollars)	
Preferred shares of $15 par value each, issuable in series. Authorized - 135,000 shares. Series A - 6% cumulative, redeemable, Preferred shares. Authorized 67,000 shares; issued and outstanding 37,870 shares (1977 - 59,940 shares)	$ 568	899
Series B - $10\frac{3}{4}\%$ cumulative, redeemable Preferred shares. Authorized 68,000 shares; issued and outstanding 51,000 shares (1977 - 57,800 shares)	765	867
Deferred shares of $100 par value each. Authorized 47,500 shares; issued and eliminated on consolidation 24,964 shares.	-	-
Common shares without nominal or par value. Authorized 3,000,000 shares; issued 1,265,989 (1977 - 1,202,595 shares)	1,844	1,461
Total capital stock	$ 3,177	3,227

Pursuant to the redemption conditions attaching to the Series A Preferred shares the Company is required, while there are no dividends in arrears on Series A Preferred shares, to apply each year to the purchase for cancellation of these shares an amount equal to three percent of the aggregate par value of Series A Preferred shares outstanding at the end of the preceding year.

Pursuant to the redemption conditions attaching to the Series B Preferred shares the Company redeemed, at par value, 6,800 shares during 1978, for an aggregate consideration of $102,000, and is required to redeem, at par value, during the two years ending April 15, 1979 and 1980, 10,200 shares and 40,800 shares respectively.

In accordance with Section 49 of The Companies Act, Newfoundland, retained earnings, totalling $315,500, has been appropriated as a "capital redemption reserve fund" which is restricted as to distribution.

Series A Preferred shares were convertible into Common shares at the option of the shareholder on the basis of two Common shares for each Series A Preferred share. This conversion privilege expired on December 1, 1978.

50,000 Common shares are reserved for issuance to employees (other than present directors and officers) under a Stock Purchase Plan. No shares have been offered under this plan as at December 31, 1978. Pursuant to an employee Stock Option Plan, options for 8,500 Common shares at an exercise price of $2.65 per share, remain unexercised as at December 31, 1978. During the year, options were exercised on 19,254 shares.

Dividends in 1978 on Common shares were paid from capital surplus on hand or tax paid undistributed surplus.

5. Commitments and Contingent Liabilities

(a) Aircraft leases
As at December 31, 1978, the Company had the following aircraft lease commitments:

	Basic Annual Rental	Lease Purchase Option Term to Option Date	Option Price
3 Boeing 737's	$1,702,000	6 years	Fair market value
1 Boeing 737	826,000	$6^1/_2$ years	$1,200,000
1 Boeing 737	781,000	$9^1/_4$ years	1,260,000
1 Hawker Siddeley HS-748	183,000	7 years	264,000
1 Hawker Siddeley HS-748	174,000	3 years	450,000
	$3,666,000		

Of the total basic annual rental $1,351,000 is payable in U.S. dollars.

The Canadian Institute of Chartered Accountants has issued Recommendations with respect to accounting for capital lease transactions. These Recommendations are applicable to all lease transactions entered into during fiscal years commencing on or after January 1, 1979. Had the Company applied the Recommendations on a retroactive basis to those capital aircraft leases in existence as at December 31, 1978 that have been accounted for as operating leases, the effect on the financial statements as at December 31, 1978 would have been as follows:

(a) Assets would increase with the addition of flight equipment under capital leases, at cost less accumulated depreciation	$19,805,000
(b) Obligations under capital leases would increase by (including obligations payable of U.S. $10,244,000)	$20,735,000
(c) Decrease in earnings for the year	$ 25,000

Related to one of the above lease agreements the Company has indemnified a third party in respect of a loan which at December 31, 1978 had a balance of U.S. $6,243,000. To secure this indemnification the Company has executed a specific mortgage on certain assets and a floating charge on certain other assets.

Pursuant to other lease agreements the Company has pledged investments as security in the amount of $575,000.

(b) Federal sales tax assessment
During 1978 the Federal Court of Canada upheld a federal sales tax assessment against the Company in the amount of $803,000, including interest of $215,000, related to the purchase and importation of a Boeing 737 aircraft in 1973. On the advice of Counsel the Company is appealing this decision. Pending the outcome of this appeal the amount of the assessment has not been recorded in the accounts as at December 31, 1978. If the appeal is unsuccessful the amount will be charged to retained earnings as a prior period adjustment.

(c) Lease of hotel building
On January 1, 1977, the Company entered into an agreement to lease a hotel building for a period of

five years at an annual rental of $150,000 with an option to purchase the building at any time during the lease term for the sum of $1,650,000.

6. Government Subsidies

Certain of the routes serviced by the Company are eligible for federal subsidies. The Canadian Transport Commission has restricted the subsidies to $1,700,000 for 1978 and 1977 regardless of the cost of providing these services. Accordingly, although the Company has submitted a claim of $2,245,000 (1977 - $3,277,000) for providing these services, only $1,700,000 has been recorded in the accounts in each of the years 1978 and 1977.

7. Other Income

A gain of $3,486,000 realized in 1978 from the sale of a Boeing 737 jet is included in other income and has increased basic earnings per Common share by $1.91

8. Remuneration of Officers and Directors

The aggregate direct remuneration paid by the Company to its directors and senior officers for the year ended December 31, 1978 was $432,000 (1977 - $400,000).

	1978	1977	1976	1975	1974
Financial ($000's)					
Revenues					
Scheduled Passengers	$38,929	$32,602	$26,311	$24,983	$22,637
Cargo	6,097	4,860	4,587	3,991	3,550
Government Subsidies	1,700	1,700	1,700	1,700	1,725
Charter & Other	9,808	7,199	6,053	5,228	2,911
	$56,534	$46,361	$38,651	$35,902	$30,823
Expenses					
Operating	$46,969	$40,917	$35,520	$32,222	$26,282
% of Revenues	83.1%	88.3%	91.9%	89.7%	85.3%
Depreciation, Aircraft Rentals & Interest	$ 8,366	$ 7,699	$ 6,941	$ 5,766	$ 4,177
% of Revenues	14.8%	16.6%	18.0%	16.1%	13.6%
Deferred Income Taxes	$ 1,919	$ (958)	$(1,226)	$ (342)	$ 342
Net Income (Loss)	$ 2,874	$(1,215)	$(1,083)	$ (190)	$ 506
Per Common Share	$ 2.26	$ (1.12)	$ (1.03)	$ (0.27)	$ 0.37
Funds Provided from (Applied to) Operations	$ 3,823	$ (508)	$(1,360)	$ (405)	$ 2,654
Per Common Share	$ 2.91	$ (0.55)	$ (1.23)	$ (0.45)	$ 2.16
Other Statistics					
Scheduled Operations					
Passengers Carried	780,000	669,000	593,000	604,000	594,000
Pass. Miles Flown (000)	293,000	257,000	225,000	238,000	239,000
Yield per Passenger Mile	13.3¢	12.7¢	11.6¢	10.5¢	9.5¢
Cargo Ton Miles (000)	4,875	3,871	3,876	3,799	3,810
Yield per Cargo Ton Mile	$ 1.25	$ 1.26	$ 1.18	$ 1.05	$ 0.93
Total Revenue Ton Miles (000)	34,194	29,580	26,340	27,575	27,666
Capacity Ton Miles (000)	56,346	53,198	50,836	51,532	52,053
Revenue Weight Load Factor	60.7%	55.6%	51.8%	53.5%	53.2%
Employees at Year End	886	830	787	771	752
Revenue Ton Miles per Employee	38,600	35,600	33,500	35,800	36,800

Glossary of Terms

CAPACITY TON MILES

Number of tons capacity for the carriage of passengers and cargo multiplied by the number of miles this capacity is flown. A measure of aircraft capacity offered.

CARGO

Freight, express, mail and excess baggage.

CARGO TON MILES

Tons of freight, express, mail and excess baggage carried multiplied by the miles they are flown.

REVENUE PASSENGER MILES

Total revenue passengers carried multiplied by the number of miles they are flown.

REVENUE TON MILES

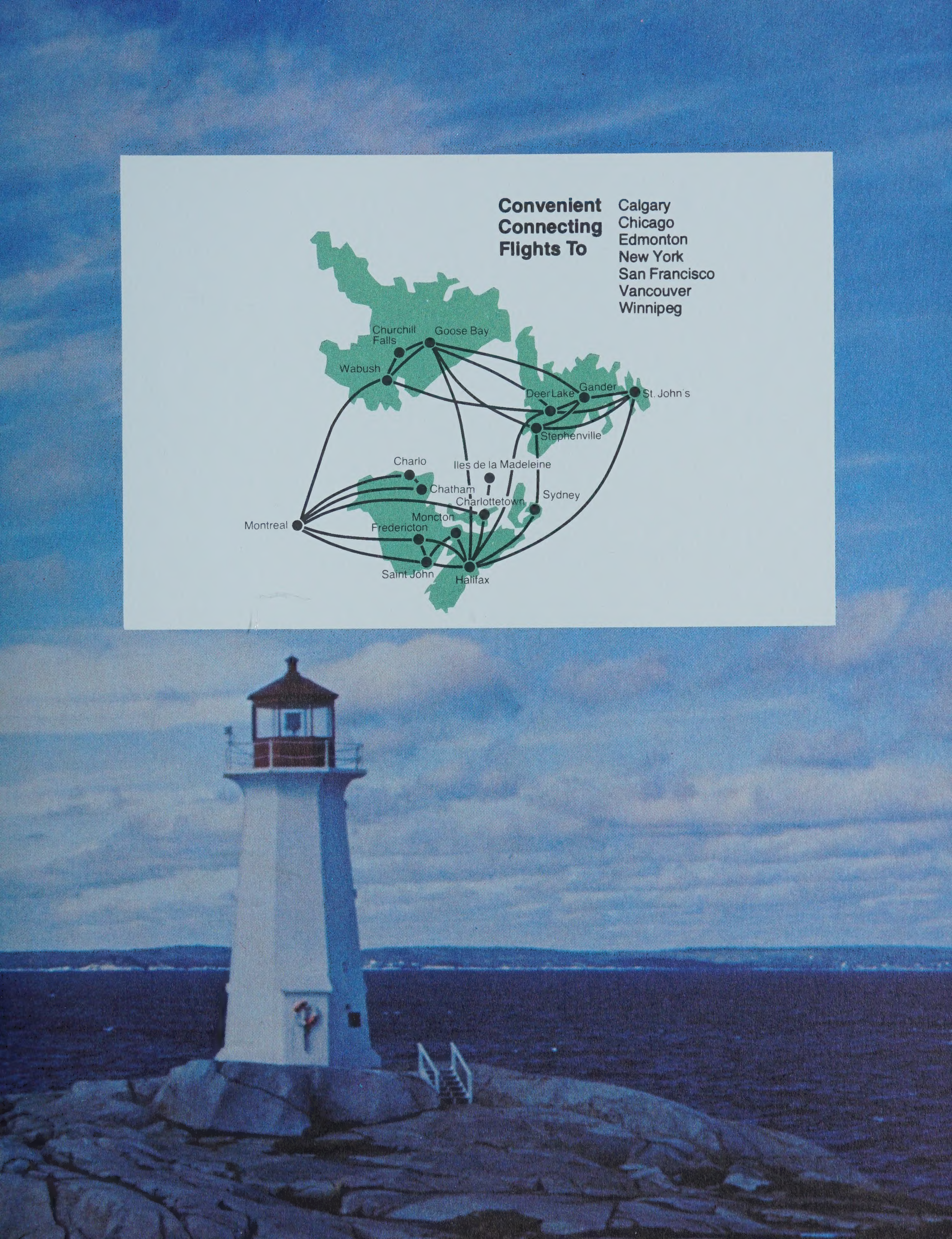
Total tons of all revenue traffic carried multiplied by the miles they are flown.

REVENUE WEIGHT LOAD FACTOR

Total revenue ton miles as a percent of the capacity ton miles.

YIELD

The average revenue per revenue passenger mile or revenue ton mile.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